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SUBJECT: TURKS WEIGH AN IRAQ OPERATION'S TOURISM IMPACT

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11. (SBU) Summary: Turkish government and tourism industry officials are bracing in anticipation of a sharp downturn in tourism in the event of an Iraq operation. The sector, Turkey's largest foreign exchange earner, turned in a good performance in 2002, earning over 10 billion USD (27 percent of all foreign currency income). Anecdotal reports hinting at reservation declines of 30-50 percent in the first months of 2003 have led some to suggest that the sector could lose 4-5 billion USD for the year as a whole. The Tourism Minister is putting a braver face on the situation. Unsurprisingly, all agree that while a quick and successful operation's effect could be rapidly overcome, an extended campaign would have a much larger impact. Key tests will come later this month at tourism fairs in Germany and Russia--Turkey's largest tourism markets. End Summary.

12. (SBU) Already Feeling the Chill: Tourism Ministry officials told Embassy Econ officer this week that Turkey is already feeling the chill from war anxiety. Summer travel reservations that are usually made in January to February have slowed considerably, they reported, while by some anecdotal accounts hotel reservations are off by 30 to 50 percent. Istanbul's Ciragan Hotel, for instance, reports a 25 percent decline in bookings. The Ministry's Acting Head of External Relations, Tolga Tuyluoglu, admitted that predicting the exact effect of a crisis is difficult, but that based on Turkey's Gulf experience, a former Ministry official has estimated that Turkey would lose 4-5 billion USD in 2003 and 10-12 billion over the next three years. This year's target of 15 million travelers generating 12 billion USD in revenue, already an ambitious increase from last year's 10 billion USD level, would appear well out of reach.

13. (SBU) Industry Predictions: Basaran Ulusoy, President of the Association of Turkish Travel Agencies, told us on March 5 that the association concurs in estimates of a 40-50 percent decline in tourism: without a war it estimates tourism revenue at 10.35 billion USD; in the event of a war it forsees only 5.5 billion USD in revenues (these totals do not include the 1.5 billion USD that the government adds to account for unrecorded income--the association thus calculates 2002 revenue at 8.5 billion USD.) ATA Invest, one of Turkey's leading brokerages, predicts a slightly higher level of tourism revenue for 2003--8.5 billion USD. All noted that beyond its importance to Turkish foreign exchange earnings (27 percent last year), tourism is deeply interwoven into the fabric of the Turkish economy, and by the Ministry's count 38 associated sectors ranging from food to jewelry and carpets will also be negatively impacted.

14. (SBU) Anecdotes: Turkish Tourism Investors' Association (TYD) Secretary General Nedret Koruyan told us March 4 that she is already hearing reports that travel agents in Europe are pressing Turkish tourist facilities for price cuts, given slumping demand. Since prices never fully recovered from the Gulf Crisis, however, she sees little margin for such flexibility for the industry. Ulusoy, whose family runs one of Turkey's largest tourism conglomerates, noted numerous anecdotal examples of the freeze in the market, ranging from cancellation of 44 maritime cruises to Turkey (which will severely impact the Kusadasi and Istanbul regions), to rent-a-car firms backing out of car purchase agreements. As for the Association itself, while typically it purchases eight million museum tickets from the Ministry of Culture to sell at cost to its members, this year it is only taking 2.5 million.

15. (SBU) A Brave Face: If privately Ministry officials are pessimistic about Turkey's prospects, Tourism Minister Guldal Aksit is putting a braver face on the situation. She told "Hurriyet" newspaper this week that she is an optimist, and that by diversifying its tourism market, Turkey would be able to limit an operation's impact. Industry observers made clear that while they do not share the Minister's views, they understand that she must remain a cheerleader for the sector: if she cried that the sky was falling, Ulusoy commented, it would fall that much more quickly and lead banks to move to foreclose on loans to the sector. Already many companies face bankruptcy, as reduced revenue flows will not cover financing costs of the renovations and projects they completed in the off-season.

16. (SBU) Hoping for a Short War: Both Ulusoy and Koruyan agreed that a short war, started soon and finished in a few weeks, could limit the impact on the sector to 25-30 percent, and permit it to recover in a few years. However, even in this case a significant impact is unavoidable, as the current uncertainty has already begun to affect bookings, given that March is the month in which many summer reservations are made and in which airlines plan their summer schedules. Ulusoy reiterated a refrain we heard frequently last fall (and heard in Ankara this week as well), in expressing regret that international exigencies had prevented the operation from being launched and completed in January and February.

17. (SBU) New Realities: Behind the high impact estimates are several new realities facing the industry. Turkey's competitors have already started using the possibility of military action against Iraq to promote themselves at Turkey's expense. Ulusoy noted Greece's new pitch to the industry: "Come to Greece, there is no war in our neighborhood." Both Ulusoy and Koruyan noted that travel contracts, beyond providing an out in case of force majeure (such as war), also now include alternate destinations, so that travelers can be easily rerouted to back-up locations.

18. (SBU) Interrupted Progress: The uncertainty caused by the Iraqi crisis has interrupted Turkey's strong rebound in 2002 from the post-September 11 world tourism downturn. Koruyan characterized last year as a very good year, noting that Turkey had experienced the largest increase in tourism in the Mediterranean region. January figures continued that trend, with total arrivals increasing by 18 percent from 2002, and EU arrivals increasing by 45 percent. Even arrivals from the U.S. and Japan, two countries that Koruyan characterized as "lost markets" for Turkey, increased by 11 and 17 percent respectively (though U.S. tourism in Turkey is still barely half its pre-September 11 level). (Note: MOT officials are less willing to write off these markets, as American and Japanese tourists typically spend more per capita than their European counterparts. End Note.) Koruyan noted that Turkey has benefited from its price advantage over rival destinations in the Mediterranean: introduction of the Euro, she suggested, had provided a pronounced edge over Spain and Greece (which saw a 5.6 percent decline in tourism in 2002).

19. (SBU) Repackaging the Market: Koruyan also gave some credit for the strong results in 2002 to the Ministry of Tourism's new advertising campaign. While funding has remained flat at 50 million USD, it has been refocused away from Turkey as a general destination and towards emphasis of specific areas such as Antalya (especially popular among Russians) and Bodrum (popular with British and German tourists). It is easier to distance such resorts from Iraq than to distance Turkey as a whole, Koruyan suggested.

110. (SBU) Key Tests: Both Ministry and Industry contacts stress that Turkey faces its key tests this month, with major tourism fairs in both Germany and Russia, the country's two key tourism markets (with 3.5 million and 950,000 visitors respectively in 2002). The industry pins special hopes on the Russian market, which in the past has proven more crisis resistant than its European counterparts. But Ulusoy noted that even a charter package from Kazakhstan was recently cancelled because of war concerns: "I thought they were used to crises," he noted.

111. (SBU) Comment: Given the sensitivity of the sector to international conditions, a significant impact on Turkey from both continued uncertainty and/or a war is unavoidable. If quick and decisive, however, observers concur that the impact can be overcome. They note too the potential upside from an end to uncertainty and from a regime change in Iraq. Ulusoy, who professed strong support for U.S. goals in Iraq, estimated that there are three to three-and-a-half million potential annual visitors to Turkey from Iraq and the broader

Middle East who do not now travel because of the crisis. End
Comment.
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